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SUBJECT: VIETNAM'S STOCK MARKET: A VIEW FROM THE FLOOR LOOKING UP

REF: A) 02 HCMC 1213 B) Hanoi 0719

Summary

[11.](#) Vietnam's stock market has stirred recently. Since last fall, the market index has more than doubled. This comes, however, after a two-and-a-half year decline, during which the HCMC stock market lost more than three-fourths of its value. Much of the recent run up in prices is attributed to the loosening of restrictions on foreign investors in the market, which may have also stimulated local demand. Still the market is tiny - with an overall capitalization of about US\$240 million and only 23 listed companies. There are only 106 registered foreign investors. With liberalization of investment caps on foreigners, new investment funds entering the market, and promises of a rash of new listings, some government officials and local analysts have high hopes for rising values and a developing market. The "smart money" from wealthy private sector businesspeople is still sitting on the sidelines, however. They prefer to invest in unlisted firms or their own businesses where, they believe, potential profits are much higher. They do not see the Stock Market as a viable investment vehicle for a few more years. On the contrary: Beware the local stock market, they say. End summary.

Bull Market or Just Plain Bull?

[12.](#) With an overall market capitalization of only about US\$240 million and 23 listed companies, the Ho Chi Minh City Stock Market has been a huge disappointment. After an initial flurry of speculative increases when the stock index peaked at 571 points in early summer 2001, stock prices had been on a grim march to the bottom. The index reached a low of 130 last autumn. Since hitting bottom, however, the market index has more than doubled to over 260 points.

[13.](#) The Ho Chi Minh City Stock Trading Center (HSTC) opened its doors in July 2000 as Vietnam's first and only stock market. It was a modest start with only two companies listed on the Vietnam Index, worth a combined US\$31.5 million (Ref A). In this rapidly developing economy, the bourse has been something of a nonentity. It has thus far failed to draw significant numbers of investors or listed companies. Even today after the dramatic run up in values, there are fewer than 16,000 Vietnamese investors, mostly inactive, and only 106 registered foreign investors. The number of listed companies has grown slowly to the current 23 companies with overall capitalization of about US\$240 million. The pace of new listings has been glacial -- 4 new listings since November 2002.

[14.](#) Besides being the venue for trading listed equities, HSTC is also the nation's official bond-trading center. The bond market in Vietnam, now valued at about US\$800 million, is currently limited to government bonds. These bonds, however, are thinly traded on the exchange, as banks, insurance companies, and other long-term investors typically hold bonds from the initial auction to maturity.

[15.](#) The lack of growth in the stock market contrasts dramatically with what has happened with other investments here. Local investors have been snapping up shares in companies in the largely unregulated over-the-counter market. No one seems to know for sure, but estimates range from one thousand to fifteen hundred companies with a value of about US\$1.5 billion. Buying and selling in this market offers none of the relative transparency and protection of trading listed companies on the stock market. These stocks are typically sold by word of mouth, making it difficult to know a true "market price." Nonetheless, local investors apparently prefer the grey market where they have more investment choices and where they can buy into firms that they feel they understand, but which are not necessarily ready to make all of the disclosures required for listed companies. Investors in this market are not typically stock traders, but have followed a "buy and hold" strategy. At the same time, many of Vietnam's wealthy invest in their own businesses or the businesses of their friends. And at least until recently, property was also seen as a good, safe investment, and thus real estate prices, especially in Vietnam's large cities, have risen to speculative levels.

No Irrational Exuberance, But Things are Looking Up

[16.](#) There are a variety of stimuli that may have triggered the recent price rise. Foremost may be increased foreign buying. Until last summer, by law foreigners were limited to an aggregate

20 percent ownership of any given stock and 7 percent ownership by any single foreign owner. Last summer, however, the market regulator State Securities Commission (SSC) raised the bar to 30 percent aggregate foreign ownership in any one stock and removed the 7 percent limit. Foreigners once again began buying. Already 5 of the 23 listed companies have reached the 30 percent cap. One expat working in the local securities industry stated his view that a few actively trading foreigners triggered the run up, which was relatively easy to do with such a small market. This attracted other foreign investors and in turn even stimulated local Vietnamese investors, who started buying when they saw the market begin to rise and foreigners returning to the market. It is not clear how much is left of the current market rally, but two foreigners active in the securities industry here claim there is still a strong upside potential in the market.

17. Much of the recent growth generated by foreign investors has come by way of investment funds taking larger stakes in the local market. Dragon Capital, a U.K. based investment bank, which has been working in Vietnam for the past decade, continues to buy listed and unlisted stocks for its VEIL (Vietnam Enterprise Investments Limited) Fund on the Irish stock exchange. Dragon Capital is currently the largest single investor in the market outside of the GVN. Phan Xi Pan Investment Fund, named after the Vietnam's highest mountain peak, also listed on the Irish exchange, has recently invested US\$5 million and is planning to invest another US\$5 million soon. The German fund DEG is actively buying shares on the exchange and the Swiss fund FMO has expressed an interest in entering the market. The foreign funds are joined by the locally based VietFund, a partnership of Dragon Capital and Sacom Bank, which is preparing to raise and invest 250 billion VND (about US\$16 million) of registered capital in the exchange. This fund, which will list itself on the exchange and trade as a closed-end fund, will be open to both foreign and Vietnamese investors.

18. Another factor in this run up may have been that stock prices fell so low that bottom feeders also began to bite. The average P/E ratio for listed firms, which reached 40 at its peak, was well in the single digits when the run up started, and average dividends were in the double digits. At the same time, other places to put away money were looking increasingly less attractive. Bank deposit rates were near historic lows, while property, a traditional investment in this part of the world, had reached all-time highs in Vietnam's major cities. Gold prices had also risen considerably.

19. Credit may also go to the Vietnamese Government, which has renewed its commitment to creating new listings on the market. This was reinforced by the recent decision to move the SSC, which had been under the Office of the Prime Minister, to the Ministry of Finance (ref B). The stock index rose after this decision became public. Local press reports as well as our contacts in the securities industry believe that with the backing of the ministry, the SSC will draw more state-owned enterprises (SOEs) undergoing 'equitization' to list shares on the exchange. One such company listed just this week. The government may also be closer to allowing foreign-invested enterprises (FIEs) to list on the market. According to an SSC official speaking at an HCMC seminar on the stock market, 20 FIEs would be allowed to list on the market as part of a pilot program.

110. The banking sector also offers potential fuel for the market's continued rise. At least three leading joint stock banks (Sacom Bank, Asia Commercial Bank, and East Asia Bank) have begun the application process to list their shares, currently traded over the counter, on the exchange. Entry of even one of these banks would significantly increase the market's capitalization. ACB hopes that it will be able to list this year or next. The bank estimates that their market capitalization alone would be in the range of US\$90 million.

But Will the Momentum Continue?

11. The local securities industry and even the government is actively touting the stock market and there does seem to be some interest. Earlier this month, the HCMC government and the SSC hosted a seminar on "Opportunities for Foreign Investors: Securities and the Stock Market." The seminar drew about 240 participants. About half the attendees were foreigners, the majority from Asia, while the remainder were representatives from listed companies and a few local investors. Foreign buyers will probably continue to provide support to the market as investment funds expand and new funds are established, especially if good companies get listed. Five of the 23 listed companies, however, have already reached their maximum foreign holding level of 30 percent.

112. At the seminar, a theme hit on repeatedly was the low profile of the listed companies. They are not big name companies, even by Vietnamese standards. A Western financial reporter quoting conversations he has had with overseas investors said, "We've never heard of these companies," and went on to ask when investors would see flagship companies on the exchange -- like Vietnam Airlines and Vinamilk. Officials waffled on the big names and merely said that many SOEs were slated for equitization and each would be considered for listing. But the First Vice Chairman of

the HCMC People's Committee quipped that although the city was working to equitize SOEs, he thought some would still be around in his granddaughter's day. It may also take some time before the market grows large enough to be able to absorb a company the size of Vietnam Airlines. Investors may have to wait for the market to grow a bit before they get a shot at the big names.

Smart Money Not Buying

13. While analysts and government officials are touting the stock market, the "smart money" remains wary. ConGenoffs asked several local business contacts, each owning one or more companies and wealthy by any international standard, if they had or were planning to invest in the stock market. Their across-the-board response, besides grim chuckles, was "No way." Each pointed out the lack of dynamic companies on the exchange. Listed enterprises are not business powerhouses and savvy investors know it. All but one of the listed companies are former SOEs, and the government still retains a large stake in most. Vietnam's most profitable and efficient firms are not on the exchange. One contact said, "The day I see ACB (Asia Commercial Bank) go to the stock exchange I will go." (Note: ACB is trying to list and believes it will be able to do so this year or the next. End note)

14. Some businessmen were also cautious about companies that might be listing in the future. "Be careful, because many of the companies which are seeking to list in the near future are doing so not to raise capital to invest in the company, but to be able to sell out at an attractive price." These business people were particularly concerned about some of the banks and FIEs that were interested in listing.

15. ConGen contacts bemoaned the lack of credible and independent information on listed companies and their industries. There is no Wall Street Journal or Financial Times here, one pointed out. Without an unbiased third party to report on and analyze these companies, it is difficult to get the true picture of the listed firms, even with the stock market's disclosure requirements. These businessmen operate in a world where personal contacts and inside knowledge are key to success. The bottom line - when it comes to companies they don't know, there is no source of information they can trust.

16. So, if they aren't investing in the market, who is? These contacts described current Vietnamese stock market investors as small players -- people without enough money or access to participate in other arenas. In their view, the stock market is for people who cannot afford HCMC's speculative real estate game, people who do not have the network of contacts to enable them to sufficiently vet grey market offerings, or individuals whose assets are not enough to buy into unlisted companies. Basically, they do not see the HSTC as a place for serious investors.

17. In these businessmen's view, there is limited room for quick growth as the SSC caps the daily price movement and limits trading hours. Two ConGen contacts likened the market to gambling, but without the possibility of a big win. One also complained that he would be required to pay full market value of the shares up front as no margin trading is permitted -- in essence tying up his money and keeping it from better uses.

18. One businessman did admit that when the HSTC opened he enthusiastically dove right in. He bought listed stocks and even set up a division in his company to track and analyze the market. But by the HSTC's second anniversary he "hated it." He described the frustrations of investing in what he called "not a real stock market," unlike the Singapore market where he also invested. After just over two years in the market he sold out with a small loss. He has no intention to return.

19. These businessmen are the movers and shakers in the local economy. They have a proven ability to make money and a comprehensive understanding of how things work here. Up to now, they remain unconvinced. Their estimates of when the stock market would be a viable investment vehicle worthy of their consideration ranged from 3-10 years,

Smart Money Not Listing

20. Our contacts clearly do not trade on the exchange, but would they ever consider listing their companies to raise capital? From their responses, that is even less likely. As well-connected businesspeople, if they need to raise money for a business project they simply pass the word through their network of contacts and associates. One contact had just launched a new company and claimed he had no shortage of people willing to buy stakes worth 1 or 2 billion VND (about US\$63-127,000). They are also actively courted by a variety of local banks.

21. Each of these local tycoons also said they were unwilling or unable to meet the disclosure requirements mandated by the SSC. It was too much of a hassle and would open them to scrutiny, perhaps government scrutiny, which they would prefer to avoid. One contact also expressed the worry that, if listed, his company was open to slander in the press that could damage the share value. He seemed more worried about the inability of the firm to

defend itself against false allegations in the press. Even if the allegations were untrue, he said, he had no real recourse under current Vietnamese law.

COMMENT

122. Increased foreign involvement seems to be driving the recent stock market growth. The advocates touting the market, with investment firms and brokerages leading the charge, point to Vietnam's overall economic growth and future potential and then try to draw a connection from that to the stock market. They skate around the fact that the listed companies are not leading this economic charge. Vietnam is growing and the stock market is one of few vehicles for foreigners to take a stake in that growth. Foreign investors lack the all-important network of contacts and do not have access to most stocks traded off the exchange. So, unless they want to open a factory or take a large stake in a joint venture, the HSTC is the only game in town. The current caps on foreign ownership coupled with the dearth of listings means room for foreign investment is limited.

123. The GVN needs to speed up the pace of new listings and implement the plan for listing joint venture firms -- a plan that has been under review for over 18 months. These moves will continue to make room for additional foreign investment. Meanwhile, the lack of flagship companies, including banks, and the perceived opportunity cost of stock market investments will continue to drive away top tier Vietnamese investors who, unlike their foreign counterparts, have a wide range of other investment options in Vietnam. They still advise avoiding Vietnam's stock market.

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